

## ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its April 2007 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.1% in 2007, 2.8% in 2008, 3.3% in 2009, and 3.1% in 2010;
- U.S. nonfarm employment grows 1.2% in 2007, 1.0% in 2008, 1.4% in 2009, and 1.4% in 2010;
- the annual U.S. civilian unemployment rate remains below 5.0% through 2010;
- consumer inflation is 2.1% in 2007, 1.9% in 2008, 2.9% in 2009, and 1.9% in 2010;
- the current account deficit is \$806 billion in 2007, \$804 billion in 2008, \$827 billion in 2009, and \$822 billion in 2010; and
- the federal unified budget deficit is \$219 billion in 2007, \$244 billion in 2008, \$267 billion in 2009, and \$245 billion in 2010.

## OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 20% probability of occurrence. In this scenario, a confluence of positive factors improves the short-term economic outlook. Most significantly, rapid productivity growth lifts economic growth and employment gains above their baseline levels. It also boosts the dollar's value. The productivity gains, along with a stronger dollar, help contain inflation. Business spending is slightly stronger in this scenario. It is also notable that residential investment is stronger, with housing bouncing back more forcefully in 2007 and maintaining a higher level through 2010. Housing is the beneficiary of stronger job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates. Faster economic growth abroad translates to vibrant domestic export growth. Finally, the *Optimistic Scenario* assumes energy prices are \$7.50-8.50 per barrel lower than in the baseline.

Under these assumptions, the economic outlook is much brighter. The slowdown is much shorter, so real GDP growth is 2.6% in this scenario compared to baseline's 2.1%. Real GDP growth is also stronger in 2008, 3.6% versus 2.8%. Although economic growth and labor markets are stronger, inflation is lower thanks to improved productivity gains. Consumer price inflation remains safely within the Federal Reserve's 1%-2% tolerance band over the forecast period. In the *Baseline Scenario* inflation hovers near the upper bounds of this band. Because of the lower inflation, the Federal Reserve is able to keep the federal funds rate below its baseline counterpart.

The faster national economic growth improves the state's job performance slightly over the forecast period. Idaho nonfarm employment growth averages about 2.3% annual growth in 2008 and 2009 in this scenario, compared to the baseline's 2.1% annual growth. As a result, of this mid-forecast push, nonfarm employment is about 1,800 above the amount forecast in the *Baseline Scenario*. This improvement reflects strength in both the good- and nongoods-producing sectors. The former's employment is about 960 higher than in the baseline in 2010, while the latter is about 860 stronger. Interestingly, Idaho nominal personal income is lower in this scenario in 2010 than in the baseline, \$55.3 billion versus \$56.5 billion—a \$1.3 billion difference. Much of the difference between the two is attributable to the lower inflation in the *Optimistic Scenario*. After adjusting Idaho personal income for inflation, the gap between the two income forecasts for 2010 shrinks to \$0.1 billion.

# IDAHO ECONOMIC FORECAST

## BASELINE AND ALTERNATIVE FORECASTS

### APRIL 2007

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
<b>U.S. GDP (BILLIONS)</b>												
Current \$	13,857	14,507	15,275	16,077	13,906	14,598	15,369	16,171	13,765	14,285	15,179	16,120
% Ch	4.6%	4.7%	5.3%	5.2%	5.0%	5.0%	5.3%	5.2%	3.9%	3.8%	6.3%	6.2%
2000 Chain-Weighted	11,652	11,974	12,366	12,754	11,706	12,128	12,586	13,028	11,562	11,681	12,018	12,328
% Ch	2.1%	2.8%	3.3%	3.1%	2.6%	3.6%	3.8%	3.5%	1.3%	1.0%	2.9%	2.6%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	46,663	49,424	52,647	56,495	46,457	48,924	51,827	55,299	47,245	50,820	54,699	59,927
% Ch	6.2%	5.9%	6.5%	7.3%	5.8%	5.3%	5.9%	6.7%	7.6%	7.6%	7.6%	9.6%
U.S. (Billions)	11,475	12,065	12,769	13,529	11,491	12,105	12,805	13,547	11,481	12,020	12,769	13,671
% Ch	5.4%	5.1%	5.8%	5.9%	5.6%	5.3%	5.8%	5.8%	5.5%	4.7%	6.2%	7.1%
<b>PERSONAL INCOME - 2000 \$</b>												
Idaho (Millions)	39,959	41,544	43,361	45,638	39,933	41,565	43,357	45,547	40,198	41,847	43,559	46,182
% Ch	4.2%	4.0%	4.4%	5.3%	4.2%	4.1%	4.3%	5.1%	4.8%	4.1%	4.1%	6.0%
U.S. (Billions)	9,826	10,141	10,517	10,930	9,877	10,284	10,712	11,158	9,769	9,899	10,169	10,536
% Ch	3.4%	3.2%	3.7%	3.9%	4.0%	4.1%	4.2%	4.2%	2.8%	1.3%	2.7%	3.6%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho	653,525	666,749	682,237	702,261	653,498	668,308	684,453	704,079	654,373	665,714	679,308	699,608
% Ch	2.1%	2.0%	2.3%	2.9%	2.1%	2.3%	2.4%	2.9%	2.3%	1.7%	2.0%	3.0%
U.S. (Thousands)	137,844	139,287	141,298	143,298	138,071	140,103	142,502	144,687	137,409	137,461	139,012	141,140
% Ch	1.2%	1.0%	1.4%	1.4%	1.4%	1.5%	1.7%	1.5%	0.9%	0.0%	1.1%	1.5%
<b>GOODS-PRODUCING SECTOR</b>												
Idaho	120,344	118,372	119,187	120,369	120,529	119,504	120,397	121,330	119,943	115,226	116,629	117,360
% Ch	-1.6%	-1.6%	0.7%	1.0%	-1.4%	-0.9%	0.7%	0.8%	-1.9%	-3.9%	1.2%	0.6%
U.S. (Thousands)	22,310	21,970	21,976	22,176	22,325	22,181	22,367	22,659	22,302	21,412	21,078	21,132
% Ch	-1.2%	-1.5%	0.0%	0.9%	-1.1%	-0.6%	0.8%	1.3%	-1.2%	-4.0%	-1.6%	0.3%
<b>NONGOODS-PRODUCING SECTOR</b>												
Idaho	533,181	548,377	563,050	581,892	532,970	548,804	564,056	582,749	534,430	550,487	562,679	582,248
% Ch	3.0%	2.9%	2.7%	3.3%	3.0%	3.0%	2.8%	3.3%	3.3%	3.0%	2.2%	3.5%
U.S. (Thousands)	115,534	117,317	119,322	121,122	115,746	117,922	120,135	122,028	115,107	116,049	117,934	120,007
% Ch	1.7%	1.5%	1.7%	1.5%	1.9%	1.9%	1.9%	1.6%	1.3%	0.8%	1.6%	1.8%
<b>SELECTED INTEREST RATES</b>												
Federal Funds	5.2%	5.0%	5.0%	5.0%	5.1%	4.8%	4.7%	4.7%	6.0%	7.4%	6.4%	5.9%
Bank Prime	8.2%	8.0%	8.0%	8.0%	8.1%	7.8%	7.7%	7.7%	9.0%	10.4%	9.4%	8.9%
Existing Home Mortgage	6.4%	6.8%	7.0%	7.0%	6.4%	6.5%	6.7%	6.7%	6.8%	8.2%	7.9%	7.8%
<b>INFLATION</b>												
GDP Price Deflator	2.5%	1.9%	2.0%	2.0%	2.3%	1.3%	1.4%	1.7%	2.6%	2.7%	3.3%	3.5%
Personal Cons Deflator	1.9%	1.9%	2.1%	2.0%	1.6%	1.2%	1.6%	1.6%	2.6%	3.3%	3.4%	3.3%
Consumer Price Index	2.1%	1.9%	2.0%	1.9%	1.6%	1.2%	1.6%	1.5%	2.7%	3.1%	3.2%	3.2%

Forecast Begins the FIRST Quarter of 2007

## PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 25% probability of occurrence. Higher inflation is a key lever that differentiates this scenario from the baseline case. Soaring oil prices, a sliding dollar, and tightening labor markets have already put upward pressure on prices. Another reason to believe prices will accelerate is there may be less spare production capacity in the world than is perceived. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. This alternative forecast also assumes the dollar weakens as foreign investors flee the greenback over concerns of the huge U.S. trade deficit. The falling dollar raises prices Americans pay for imports, which further fans inflation flames. The economic outlook is also dampened by increased pressure on interest rates. Two are most noteworthy. Foreign investors demand higher returns on U.S. investments to compensate for the dollar's slide. In addition, the Federal Reserve tightens more aggressively than in the baseline case to fight inflation. The anticipated higher interest rates take a greater toll on the already weak housing sector. Housing starts drop to 1.33 million units this year, versus 1.41 million units in the baseline. The median price of existing homes drops nearly 10% below the baseline price in late 2007. Capital spending also retreats. Beginning in the fourth quarter of 2006, spending on equipment and software declines for seven straight quarters.

Between the higher interest rates and persistently high energy prices, consumer confidence suffers. As a result consumers rein in their discretionary spending, causing the U.S. economy to slow. Hiring falters, which causes the nation's unemployment rate to climb. The Federal Reserve provides no immediate relief. The nation's central bank is forced to choose between fighting inflation and encouraging economic growth. It is assumed to battle inflation. This puts upward pressure on interest rates, which causes debt-burdened consumers to retrench further. The economy nearly sinks into a recession, with GDP growth at just 1.3%--well below the baseline's 2.1%. The Federal Reserve's policy eventually succeeds and inflation stabilizes. However, the ground lost relative to the baseline scenario is not made up over the forecast period.

Given the weaker national economic outlook in this scenario, it is no surprise Idaho's economy loses ground to its baseline counterpart. Idaho nonfarm employment, which tops 702,000 jobs in 2010 in the *Baseline Scenario*, manages to generate just under 700,000 jobs in this scenario. All of this difference comes from the goods-producing sector. The nongoods-producing sector actually ends the decade with slightly more jobs (356) than in the baseline. Interestingly, both Idaho nominal and real personal income are both slightly higher in 2010 compared to their baseline counterparts. However, as in the *Optimistic Scenario*, the gap between the inflation-adjusted income is smaller than the one between nominal measures.